

DOWNSIZE TO A BIGGER LIFE

2012 ANNUAL REPORT



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Chairman's Report

For the 2012 Financial Year

Dear Shareholder,

Lifestyle Communities creates affordable communities which offer homeowners a new way of living. At each of our communities, living for our residents means fun and vitality, adventure and spirit with facilities that endorse a happier, healthier and more active lifestyle. This has been our mission from the day we started the business nine years ago and we have never wavered from this.

The Lifestyle Communities business model is based on the Company maintaining land ownership while leasing individual developed sites to homeowners. With approximately 1,225 sites under development or occupied, the Company has now established a market presence that has enabled continued growth in the affordable aged qualified housing sector.

Financially, your company has produced a solid result, despite the ongoing turbulence in the global economy and a reasonably subdued property market. Revenue increased as a result of improved rental income and deferred management fees. Sales of new homes were relatively flat, reflecting both lower real estate activity as well as the delay in bringing Chelsea Heights on line. The Net Profit before Tax (NPBT) for the year ended 30 June 2012 was \$8.9 million compared with \$10.4 million in the previous year - a decrease of just under 15%. This result was affected by additional financing costs through the utilisation of the new long term debt facility put in place over a year ago. As well, planning approval delays for our new Chelsea Heights community meant revenue was not realised in FY2012 as expected. Chelsea Heights will be contributing to profits in FY2013, with advance sales to date exceeding original expectations.

As at 30 June 2012, Net Tangible Assets (NTA) are \$40.1 million, an increase of 11% over the previous year.

Operationally, your Company delivered 134 home settlements including 72 at Cranbourne, an overall increase of 27 on the previous year. We also reached a significant milestone during the year in welcoming our 500th homeowner.

Given the success of our Joint Venture development model for selected villages, Lifestyle Communities recently announced the sale of a 50% interest in our site at Hastings. This was a strategic decision that will deliver a greater Return on Investment (ROI) on the project, with the proceeds from the sale being utilised to pursue further site acquisitions whilst also providing additional liquidity. The Company's operational capability and development pipeline as at 30 June 2012 was approximately 1,225 homes completed or under development and moving towards our target of 2,500 homes in development or under management by 2020.

Given the performance during FY2012 and based on the cautious but confident outlook for the immediate future of the business, the Board is pleased to be able to declare a dividend of 0.5 cents per share on a fully franked basis for the financial year FY2012. This dividend is the outcome of a steady earnings performance, positive operating cash flows on mature sites, a strong balance sheet and a healthy pipeline of pre-committed sales.

To further benefit shareholders, the Company recently announced the implementation of a Dividend Reinvestment Plan that offers shareholders the choice to receive their dividend in either cash, or the issue of new shares, or a combination of both. As a reminder, the closing date to return the election forms relating to the Dividend Reinvestment Plan is 14th September 2012.

Lifestyle Communities has a committed team continually seeking to find better and more efficient ways of achieving improved outcomes for homeowners and shareholders alike.

The Board looks to the future with confidence as Lifestyle Communities develops a strong, sustainable market position that builds on the foundation of a stable funding base, a highly experienced team and a growing group of happy homeowners, many of whom are our best ambassadors.

Let me also take the opportunity to express my gratitude to the management and to all our employees. Their hard and devoted work makes it possible for Lifestyle Communities to credibly call itself the market leader in Victoria. The next 12 months will see us continue to execute our long term plans for the benefit of shareholders, homeowners and staff.

Yours sincerely,

A handwritten signature in black ink that reads "David Paranthoiene".

David Paranthoiene
Chairman
20 August 2012

Managing Director's Report

For the 2012 Financial Year

Fellow Shareholder,

I am pleased to report that FY2012 has been a year in which Lifestyle Communities has continued to grow operationally. Continuing demand for homes within our communities contributed to an increased number of settlements during the year and continued growth in the annuity income generated.

Your Company recorded a Net Profit Before Tax (NPBT) of \$8.9 million. This was down by just under 15% from the previous year due to a couple of key factors:

- Additional financing costs through the utilisation of the new long term debt facility;
- Planning approval delays in respect of our new community at Chelsea Heights, which prevented forecast settlements and revenue from being realised in FY2012. Chelsea Heights will be contributing to profits in FY2013, with advance sales to date exceeding original expectations.

Revenue for the period was \$31.1 million and total home settlements (including those from Joint Ventures) numbered 134 (compared with 107 last financial year). Annuity income in the form of rental revenue continued to rise to more than \$4.2 million, an increase of 40% from FY2011.

Overall, it was a year of significant activity, delivering results that have been resilient in the face of uncertain economic times and a flat property market.

I am pleased to report that Lifestyle Communities continued operational growth and stable cash flows from management operations have enabled the Company to announce the payment of a dividend this year. We will continue to grow our business while carefully managing costs with the aim of maintaining dividends into future periods.

Key measures:

Revenue	\$31.1m	Up by 11%
Rental Income	\$4.2m	Up by 40%
Gross settlements^	134	Up by 27 settlements
NPBT (Net Profit Before Tax)	\$8.9m	Down by 15%
NPAT (Net Profit After Tax)	\$6.0m	Down by 11%
Net Profit After Current Tax (excluding deferred tax expense)	\$8.9m	Down by 15%
EBITDA (Earnings before Interest, Tax, Depreciation & Amortisation)	\$11.4m	Down by 0.5%
Net Assets at 30 June 2012	\$40.1m	Up by 11%

^ Please Note: Gross settlements include 72 settlements provided by 50% joint venture communities compared to 8 in FY2011

Given the impact of higher financing costs and planning approval delays at Chelsea Heights on Net Profit before Tax (NPBT), it is pleasing to see the Company's Earnings before Interest, Tax, Depreciation & Amortisation (EBITDA) result was consistent with FY2011.

Significant achievements during the year include:

- Completed construction at Lifestyle Seasons, Tarneit.
- Achieved 72 settlements during the period at Lifestyle Cranbourne.
- Commenced construction at Lifestyle Shepparton and moved our first 5 homeowners into the community.
- Commenced construction at Lifestyle Chelsea Heights in April 2012, with first settlements planned for the last quarter of 2012.
- Secured planning approvals for Hastings.

Our newest community – Lifestyle Hastings located along Victoria's Mornington Peninsula is in construction preparation phase. Lifestyle Hastings is expected to commence construction during the 2012 calendar year with the first homeowners moving in during the calendar year 2013. Your board recently announced the sale of a 50% interest in Lifestyle Hastings. This will provide the Company with a stronger capital base and additional liquidity. This community development will now operate as a joint venture, delivering improved returns for the capital deployed.

At Lifestyle Shepparton, the first homeowners moved in during June 2012 and the clubhouse facilities are expected to be open in September 2012.

Civil construction at Lifestyle Chelsea Heights commenced in May 2012 and we anticipate welcoming our first homeowners prior to Christmas 2012. The Company also decided not to complete the contract to purchase land at Drouin, Victoria.

Lifestyle Communities continues to provide ongoing operational and management services for all communities and homeowners at Lifestyle Brookfield in Melton, Lifestyle Seasons in Tarneit, Lifestyle Warragul and Lifestyle Cranbourne which generate long term annuity income for the Company.

The total number of homes under management, under development or in the pipeline is approximately 1,225 as at 30 June 2012. Lifestyle Communities is actively seeking new opportunities for development sites that will meet the needs of our target customer group, in terms of local amenity, connection to services, size of land and population base to support a community of homeowners on our growing demographic.

Community Portfolio

The following table summarises the status of our portfolio:

COMMUNITY PORTFOLIO						
Communities	Sites	Sites sold and occupied	Sites sold and yet to be settled	Sites sold, occupied and yet to be settled		
				#	%	
 Brookfield (Melton)	228	226	1	227	99	
 Seasons (Tarneit)	136	126	8	134	99	
 Warragul	182	109	22	131	72	
 Cranbourne [^]	217	89	35	124	57	
 Shepparton	217	7	28	35	16	
 Chelsea Heights [^]	105	–	30	30	29	
 Hastings [^]	141	–	16	16	11	
Total sites	1,226	557	140	697	57	

[^] Represents 100% of the development of which LIC will share 50%
Data correct as at 17 August 2012

Outlook

As the first baby boomers turn 65, Lifestyle Communities is well positioned to build a stable and long lasting business that delivers a profitable annuity income stream. Based on ABS data:

- From 2005 until the year 2021, the number of people aged over 65 is projected to double, and then double again by 2051,
- Within a generation, a third of Australians are going to be aged over 55 and almost a quarter will be over 65,
- Between 2001 and 2011 the Victorian population grew by 15%; within the over 55's age bracket the population growth over the same period was 30%.

We are confident that the Lifestyle Communities business creates a sustainable financial solution for our homeowners. Affordability is a key driver of our success. Housing affordability, in general, is defined as having to pay less than 25% of your gross income as rental. As at May 2012, homeowners at Lifestyle Communities receiving the pension and rental assistance are paying 18.5% of their pension as rental (for singles) and 17% of their pension as rental (for couples).

Lifestyle Communities homeowners are able to sell their existing houses and utilise any excess capital in any way they wish. Our relationship with homeowners does not finish when the home is handed over. We manage all of our communities and the site rental revenue generated along with deferred management fees provide a stable, long term, ongoing income stream for the Company.

Lifestyle Communities operates in a market that will continue to grow. We are confident in our strategic direction and with the security of our long term finance agreements; the Company is well positioned to take advantage of the opportunities before us.

The Company will continue to monitor broader accommodation market trends within Australia and globally, and adjust our strategy if required, however the strength of our position in this market, the ageing population and the demand for affordable housing will ensure a continued strong sales performance.

Yours sincerely

A handwritten signature in black ink that reads "James Kelly".

James Kelly
Managing Director
20 August 2012

Directors' Report

The Directors present their report together with the financial report of the consolidated entity consisting of Lifestyle Communities Limited and the entities it controlled, for the financial year ended 30 June 2012 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

The principal activities of the business have not changed during the financial year ended 30 June 2012 and the Company remains focused on creating and managing affordable communities which offer homeowners a whole new way of living.

Results

The consolidated profit after income tax attributable to members of Lifestyle Communities Limited was \$6,047,726 (2011: \$6,824,458).

Directors

The names of the Company's directors in office during the year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

David Paranthoene, Non-Executive Chairman

David became a non-executive director of Lifestyle Communities Limited in 2007 and chairman in February 2008. He was formerly the managing director of Namberry Limited, and was a founding principal of the listed telecommunications company Pracom Limited. David spent more than 21 years in senior leadership roles including that of managing director, and he brings to our Company valuable operational experience within services enterprises. David has not held any directorships in any other listed entities during the past 5 years. David is chairman of the Audit Committee and the Remuneration Committee.

James Kelly, Managing Director (BBldg)

James was appointed to the position of Managing Director in 2007. With over 30 years' experience in property development and construction, James brings a wealth of knowledge to our organisation. Prior to establishing Lifestyle Communities Limited, James held several senior management roles in property and related sectors. James has not held any directorships in any other listed entities during the past 5 years.

Bruce Carter, Executive Director Finance (BComm)

A founding member of Lifestyle Communities Limited, Bruce has more than 25 years' experience in financial and business management. He was the co-founder of the listed telecommunications company Pracom Limited, serving as joint managing director from 1988 to 2002. Bruce brings to Lifestyle Communities Limited extensive knowledge and experience of building and operating complex listed companies. Bruce has not held any directorships in any other listed entities during the past 5 years.

Dael Perlov, Executive Director Operations (BBus, BMktg)

A founding member of Lifestyle Communities Limited, Dael was appointed as Executive Director, Operations in 2007. With more than 23 years sales and marketing experience, Dael has a strong background in business innovation. His experience in service delivery to both consumer and corporate markets is invaluable in establishing the robust systems and procedures needed to operate Lifestyle Communities Limited. Dael has not held any directorships in any other listed entities during the past 5 years.

Tim Poole, Non-Executive Director (BComm, CA)

Tim was appointed to the board of Lifestyle Communities Limited, as a non-executive director in November 2007. He holds a Bachelor of Commerce from University of Melbourne and is a Chartered Accountant. Tim is a non-executive director of Newcrest Mining Limited, Victoria Racing Club Limited, and AustralianSuper Pty Ltd. He is also non-executive Chairman of Westbourne Credit Management Limited, Continuity Capital Partners Pty Limited, the LEK Consulting Advisory Board and the AustralianSuper investment committee. Tim is the former non-executive chairman of Asciano Limited and a former Managing Director of Hastings Fund Management Limited. Tim is a member of the Audit Committee and the Remuneration Committee.

Geoff Hollis, Company Secretary (BComm, CA)

Geoff was appointed as Company Secretary on 24 November 2011. Geoff joined Lifestyle Communities Limited in February 2010 and prior to this role he spent 10 years as a Chartered Accountant in professional practice. Geoff was appointed as a member of the Institute of Chartered Accountants in June 2004 and is currently part way through the Graduate Diploma of Applied Corporate Governance via Chartered Secretaries Australia.

Interests in the Shares and Options of the Company and Related Bodies Corporate

At the date of this report, the interests of the directors and executives in the shares and options of Lifestyle Communities Limited were:

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares
Bruce Carter	103,059,042	2,000,000
Dael Perlov	89,366,652	2,000,000
James Kelly	101,716,417	2,000,000
David Paranthoienne	8,870,646	1,250,000
Tim Poole	6,845,334	5,250,000
Executives		
Geoff Hollis	-	1,250,000

Dividends

The Directors have resolved to pay a final fully franked dividend of 0.5 cents per ordinary share in respect of the full year result.

The Company has announced a Dividend Reinvestment Plan (DRP) on 10 August 2012. The Dividend Reinvestment Plan will apply to the dividend in respect of the FY2012 full year result as well as future dividends subject to the Board's discretion. The Directors have determined that any shares allotted under the DRP in respect of FY2012 dividend will be issued at a discount of 5% to the pricing methodology as per the Plan Rules announced on 10th August 2012.

Operating & Financial Review

Significant Operating Results

- Revenues: \$31.1m (2011: \$28.0m)
- Earnings before interest, tax, depreciation and amortisation \$11.4m (2011: \$11.5m)
- Net profit after tax of \$6.0m (2011: \$6.8m)
- Net assets at the end of the period: \$40.1m (2011: \$36.1m)

Full details are provided in the notes to financial statements section of this report.

Outlook – Future Activities

Although net profit fell, the company was able to deliver 134 new home settlements (including joint venture sites), an increase of 27 from FY2011. Your Directors consider this to be an acceptable achievement given difficult economic trading conditions over the last 12 months.

Regardless of the ongoing uncertainty in financial markets as well as a flat property market, Lifestyle Communities continues to deliver affordable housing within secure communities for like-minded homeowners. As previously noted, we anticipate this market will continue to grow and deliver positive results for the company in future years.

Lifestyle Shepparton has begun welcoming homeowners at Lifestyle Shepparton and, after overcoming planning delays, Lifestyle Chelsea Heights is expecting its first homeowners to move in before the end of calendar 2012. It is anticipated that Lifestyle Hastings will commence civil construction after October 2012, and subject to planning and the weather, we anticipate welcoming the first homeowners on or around 30 June 2013.

The Company is investing in sales and marketing to ensure we capitalise on our market position and demand in the market for affordable living options. Our focus during the next 12 months is to ensure the continued success and sell through of our existing communities as well as pursue future site opportunities.

The board is cautiously optimistic about the growing future demand for affordable homes and the lifestyle that is delivered within our communities.

Please refer to the Managing Directors Report for additional information regarding the results and the outlook for the Company.

Significant Changes in the State of Affairs

In June 2012 the consolidated entity entered into a conditional contract to sell a 50% interest in Lifestyle Hastings. Settlement is expected to occur in September 2012. Lifestyle Hastings will be developed by the consolidated entity with the same joint venture partners as Lifestyle Cranbourne.

The Board elected not to proceed with the development opportunity in Drouin, Victoria. The contract that was due to settle in December 2012 has been cancelled, with no penalty.

There have not been any other significant changes to the Company.

Significant Events after the Balance Date

There are no matters or affairs that have arisen since balance date which significantly affect or may significantly affect the operations of the consolidated entity.

Likely Developments and Expected Results

Please refer to the Outlook section and to the Managing Director's report for information on our future plans

Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

Indemnification and Insurance of Directors and Officers

During the financial year, the Company paid premiums in respect of a contract of insurance for Directors' and Officers' Liability.

The nature of the liabilities insured and premium payable under this contract of insurance has not been disclosed in accordance with confidentiality provisions within the policy.

Directors' Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

Directors' Meetings

	No. of Meetings in year ended 30th June 2012	
	Held	Attended
D. Paranthoiene	11	11
B. Carter	11	9
D. Perlov	11	11
J. Kelly	11	11
T. Poole	11	11

Audit Committee Meetings

	No. of Meetings in year ended 30th June 2012	
	Held	Attended
D. Paranthoiene	3	3
T. Poole	3	3

Remuneration Committee Meetings

	No. of Meetings in year ended 30th June 2012	
	Held	Attended
D. Paranthoiene	2	2
T. Poole	2	2

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Lifestyle Communities Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained later in this report.

Auditor Independence and Non-Audit Services

The Directors received an Independence Declaration from the auditor of Lifestyle Communities Limited which is provided in this report.

Non-Audit Services

The Company's auditor, Pitcher Partners, provided tax compliance and general tax advice services at a cost of \$32,220 (2011: \$62,230). The directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of these non-audit services means that auditor independence was not compromised.

Remuneration Report (Audited)

The remuneration report has been subject to audit. It outlines the remuneration arrangements in place for Directors and executives of the Company.

Compensation of Key Management Personnel

The Company has established a remuneration committee and utilises the remuneration philosophy and policies listed below.

Remuneration Policy

The remuneration policy is designed to determine the remuneration arrangements in place for directors and executives of the Company.

Remuneration Philosophy

The board of Lifestyle Communities Limited is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Such officers are given the opportunity to receive their base emoluments in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

(i) Link between performance and remuneration outcomes

<i>Performance measure</i>	2012	2011	2010	2009	2008
Net profit after tax (\$million)	\$ 6.05	\$ 6.82	\$ 5.88	\$ 0.71	\$ (1.62)
Net profit (change from prior year) (%)	-11.4%	16.0%	728.2%	143.8%	-80.8%
Dividends paid (fully franked) (cents)	0.5	-	-	-	-
Diluted earnings per share (cents)	1.302	1.470	1.273	0.180	(0.996)
Total Shareholder return	-5.56%	50.00%	50.00%	-60.00%	60.00%
STI paid to KMP	\$ 42,000	\$ 151,200	\$-	\$-	\$-

STI relates to short-term cash bonus incentives. Refer to discussion below regarding the current policy in relation to short-term cash bonus incentives. The Company has a long-term incentive plan in place being the Senior Executives and Directors Share Option Plan as discussed below. No vesting has occurred under the plan as yet.

Remuneration Structure

In accordance with recommended corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

(i) Non-Executive Director remuneration

Objective

The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of high calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Company's constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a General Meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held in November 2007 when shareholders approved an aggregate remuneration of \$1,000,000 per year, however, non-executive directors fees have been less than this amount during FY2012. Each director receives a fee for being a director of the Company. The remuneration of non-executive directors for the period ended 30 June 2012 is detailed in the remuneration table in this report.

(ii) Senior Management and Executive Director remuneration

Objective

The Company aims to reward executives with remuneration commensurate with their position and responsibilities within the Company to:

- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure

Employment contracts are entered into with senior executives that aim to achieve all the above objectives.

Compensation of Key Management Personnel

(i) Employment contracts

Over the last four years, all executive directors have been employed under an Executive Services Agreement. The latest agreements commenced on 1 July 2010. Under the terms of the agreements, executive directors may resign from their positions and terminate their contracts by giving three months written notice to the Company.

The Company may terminate any of these employment agreements by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of their remuneration plus entitlements).

The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed plus entitlements, and only up to the date of termination.

(ii) Senior Executives and Directors Share Option Plan

During FY2011 eligible senior management, executive directors and non-executive directors were issued options as part of the Senior Executive and Directors Share Option Plan ('the plan') detailed at the Company's 2010 AGM. The main objectives of the plan were to encourage senior management, executive directors and non-executive directors to improve the long-term performance of the Company, enable them to share in the long-term growth of the company as well as to provide motivation and to ultimately retain their services. No options were issued pursuant to this plan during FY2012. The objective is to only issue options or similar instruments under this or a similar plan no greater than on a biennial basis.

(iii) Short-term cash bonus incentive

Each Executive Director received a cash bonus of \$14,000 during the year ended 30 June 2012. This is a performance related cash bonus in relation to some key business deliverables achieved in respect of FY2011 but paid in FY2012. No cash bonuses have been provided as part of remuneration to executive directors in respect of FY2012 as the bonus scheme that was in operation during FY2011 was cancelled on 12 September 2011.

(iv) Compensation of Directors and Key Management Personnel for the year-ended 30 June 2012

30 June 2012	Short Term				Post Employment		Long Term	Share Based Payment	Total Performance Related %		Total
	Salary & Fees \$	Cash Bonus \$	Non Monetary \$	Other \$	Super \$	Retirement Benefits \$	Incentive Plans \$	Options \$	Cash Bonus %	Shares %	\$
Directors											
D Paranthoienne	67,500	-	-	-	-	-	-	27,188	-	28.7	94,688
T Poole	45,000	-	-	-	4,050	-	-	27,188	-	35.7	76,238
B Carter	186,239	14,000	-	-	16,761	-	-	43,500	5.4	16.7	260,500
J Kelly	232,798	14,000	-	-	20,952	-	-	43,500	4.5	14.0	311,250
D Perlov	232,798	14,000	-	-	20,952	-	-	43,500	4.5	14.0	311,250
	764,335	42,000	-	-	62,715	-	-	184,876			1,053,926
Key Management Personnel											
Geoff Hollis	136,468	-	-	-	12,282	-	-	27,188	-	15.5	175,937
Total	900,803	42,000	-	-	74,997	-	-	212,064			1,229,863

(v) Compensation of Directors and Key Management Personnel for the year-ended 30 June 2011

30 June 2011	Short Term				Post Employment		Long Term	Share Based Payment	Total Performance Related %		Total
	Salary & Fees \$	Cash Bonus \$	Non Monetary \$	Other \$	Super \$	Retirement Benefits \$	Incentive Plans \$	Options \$	Cash Bonus %	Shares %	\$
Directors											
D Paranthoiene	66,108	-	-	-	1,392	-	-	16,424	-	19.6	83,924
T Poole	45,000	-	-	-	4,050	-	-	16,424	-	25.1	65,474
B Carter	183,485	50,400	-	-	16,514	-	-	26,279	18.2	9.5	276,678
J Kelly	229,355	50,400	-	-	20,642	-	-	26,279	15.4	8.0	326,676
D Perlov	229,355	50,400	-	-	20,642	-	-	26,279	15.4	8.0	326,676
	753,303	151,200	-	-	63,240	-	-	111,685			1,079,428
Key Management Personnel											
Geoff Hollis*	124,617	-	-	-	11,216	-	-	16,424	-	10.8	152,257
Total	877,920	151,200	-	-	74,456	-	-	128,109			1,231,685

Shares Under Option

As at the date of this report, there were 16,900,000 unissued ordinary shares under option.

During the year there were no options granted to key management personnel.

No option holder has any right under the options to participate in any other share issue of the Company.

For details on the valuation of the options, including models and assumptions used, please refer to note 24.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

There were 100,000 options exercised during the period at a zero exercise price. 6,000,000 options lapsed during the period. Refer to note 24 for a reconciliation of share options.

Signed in accordance with a resolution of the Directors.

On behalf of the Board

A handwritten signature in black ink, appearing to read "David Paranthoene".

David Paranthoene
Chairman
20 August 2012

A handwritten signature in black ink, appearing to read "James Kelly".

James Kelly
Managing Director
20 August 2012



AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Lifestyle Communities Limited

In relation to the independent audit for the year ended 30 June 2012, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.
- (ii) No contraventions of any applicable code of professional conduct.

S D WHITCHURCH

Partner

20 August 2012

PITCHER PARTNERS

Melbourne

Corporate Governance Statement

The board of directors of Lifestyle Communities Limited is responsible for the corporate governance of the Company. The board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected, and to whom they are accountable.

The Company's corporate governance principles and policies are structured with reference to the Corporate Governance Council's recommendations, which are as follows:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

The board continued to operate under the following policies during the year (these can be viewed on our website).

- Board Charter
- Board Code of Conduct
- Audit Committee Charter
- Remuneration & Nomination Committee Charter
- Dealing in Securities; Directors & Officers Policy
- Dealing in Securities; Staff Policy

1. Lay Solid Foundations for Management and Oversight

The board's responsibilities include development of strategy, oversight of management, risk management and compliance systems and monitoring performance. The board has established certain policies and protocols in relation to the Company's operations, some of which are summarised below.

The board's activities are governed by the Board Code of Conduct. All board members are entitled to obtain independent professional advice after advising the other directors of the intention to do so. The responsibilities of the board are set out in the Board Code of Conduct which can be viewed on our website.

Mr D Paranthoienne and Mr T Poole are non-executive directors. Messrs Perlov, Kelly & Carter are all significant shareholders, they are executive directors and involved in the day-to-day operations of the Company.

It is the responsibility of management to administer the Company in accordance with the directions and policies of the board and within the powers delegated by the board. The Company has established the functions delegated to senior executives as part of their employment contracts and as such, the Company considers them confidential.

Appointment and induction of senior executives is carried out in a manner appropriate to the size of the Company. Performance is monitored and appraised on a continuous basis. The evaluation process is informal, as this is considered appropriate due to the size of the Company. The performance evaluation of the senior executives is in accordance with these principles.

2. Structure the Board to Add Value

The board comprises a non-executive chairman and three executive directors and a non-executive director whose qualifications and experience are set out in the Directors' Report.

Corporate Governance Council Recommendation 2.1 requires a majority of the board to be independent directors. Both non-executive directors, Mr T Poole and Mr D Paranthoiene are considered to be independent as defined in the ASX Guidelines. Mr J Kelly is managing director of the Company.

Whilst not all recommendations are complied with due to the Company's size, the board has an appropriate level of industry experience and business skills.

The Company has no formal performance evaluation procedure for the board. The informal, ongoing self-evaluation by the board is appropriate due to its size.

The functions of a nomination committee are carried out by the remuneration and nomination committee, the charter for which is available on our website.

Mr D Paranthoiene and Mr T Poole form this committee and both have attended the two meetings. The Company has no formal procedure or policy for the selection and appointment of new directors as this is considered appropriate to the requirements of a small public company. Re-election of directors is carried out in accordance with the Listing Rules and the Company's Constitution.

Whenever necessary, individual members of the board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as directors.

Directors acknowledge the need to act in good faith in the interests of all shareholders.

3. Promote Ethical and Responsible Decision-making

Directors, management and staff are expected to act ethically and responsibly at all times. The Company's Code of Conduct may be viewed on our website. All board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as directors.

Under the Company's Securities Trading Policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Directors and officers of Lifestyle Communities Limited should not deal in securities of Lifestyle Communities Limited or communicate information concerning Lifestyle Communities Limited to a person who may deal in securities unless:

- They have satisfied themselves that they are not in possession of any price sensitive information that is not generally available to the public
- They have advised the chairman of their intention to do so
- The chairman has made appropriate enquiries of other directors and officers
- The chairman has indicated that there is no impediment to them doing so

The chairman will generally allow directors and officers to deal in securities of Lifestyle Communities Limited as a matter of course (unless there is in existence price sensitive information that has not been disclosed because of an ASX Listing Rule exception) in the following periods:

- Within the period of one month after the release of annual and half yearly results
- Within the period of one month after the issue of a prospectus

They should also wait at least two business days after the relevant release so that the market has had time to absorb the information.

The Company's Trading Policy is in accordance with the ASX Corporate Governance Principles.

The board recognises the legitimate interests of shareholders, employees and other stakeholders. Lifestyle Communities Limited will work closely with relevant community groups and people to identify significant cultural and heritage sites and any impact the Company's activities may have on them.

Lifestyle Communities Limited is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safe conduct are the responsibility of Lifestyle Communities Limited, its employees, its alliance partners and suppliers of goods and services.

Specifically, Lifestyle Communities Limited will:

- comply with the intent and provision of all applicable laws, regulations and standards
- minimise environmental impact
- ensure that employees, partners, suppliers and the public are made fully aware of Lifestyle Communities Limited's responsibility for the effect of its operations on the environment

The Company is committed to gender diversity across our workforce. Given the Company's minimal employee numbers there are no guidelines in place regarding the monitoring of gender diversity. The Company will endeavour to select the appropriate candidates for any positions, regardless of gender. As at 30 June 2012 Lifestyle Communities Limited had 50% female employees. There are currently no females in senior management roles.

4. Safeguard Integrity in Financial Reporting

In accordance with modern governance practice, the Company has formed an audit committee.

Due to the size of the board, there are currently only two members of the audit committee: Mr D Paranthoienne and Mr T Poole whose details are set out in the Directors' Report. The committee has met on three occasions during the year with the following attendances:

Mr D Paranthoienne	3 out of 3
Mr T Poole	3 out of 3

The Audit Committee Charter which is available on our website, directs the role of the committee, and the committee oversees the risk management and audit processes of the Company. The committee also regularly reviews the work of the external auditors to determine whether a change in auditors would be in the best interests of the Company. In doing so, it assesses the firm's policy of partner rotation, its independence, and ensures that no extra assignments are allotted to the auditors that would infringe on their independence. Auditors are officially invited by the audit committee to attend the annual general meeting.

5. Make Timely and Balanced Disclosure

The board aims to ensure that the shareholders are fully informed of all material developments on a timely basis and that shareholders are in a position to assess the board's performance and Company results. Information is communicated in a clear and balanced way to shareholders through:

- Continuous disclosure to the ASX: Lifestyle Communities is committed to maintaining full and proper disclosure to its shareholders and the market in general. This is addressed in the Disclosure Policy adopted by the board which is available in the Company's Governance Manual on the website, and through the appointment of a disclosure officer who has accountability for ensuring that timely and appropriate disclosure is continuously addressed.
- Meetings: The Company holds a general meeting each year and copies of the Managing Director's address are placed on the ASX and Lifestyle Communities websites. The external auditor attends the meeting each year and is available to answer questions from the shareholders regarding the conduct of the audit and the audit report.
- Reporting: In addition to any ongoing disclosure updates, Lifestyle Communities formally reports to the shareholders and the market twice each year. These reports contain both financial results and an update on key strategic and operational issues.
- www.lifestylecommunities.com.au: The Lifestyle Communities website provides comprehensive information regarding the Company's operations. It also includes an investor section with current reports. Historical reports are available upon request.

6. Respect the Rights of Shareholders

The board aims to ensure in accordance with the Recommendation 6.1 that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual and half-year reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The Company maintains a website on which is placed Company announcements, the Annual Report and Company policies. The Corporate Governance Principles and Policies on our website contain the Company's communications policy.

The auditor is invited to the annual general meeting for the purpose of answering shareholders' questions in relation to the conduct of the audit and the audit report.

7. Recognise and Manage Risk

The board has responsibility for managing risk and internal control and acknowledges that risk management is a core principle of sound Corporate Governance. The financial viability, reputation and future of the Company are materially dependent on the manner in which risk is managed.

The board's strategy covers the areas of financial risk, operational risk, insurance and internal control. The Company has not appointed a risk management committee due to the importance the board places on risk mitigation. In addition, the small size of the board makes it appropriate for the full board to manage this area.

Financial Risk

The company has a sophisticated financial model that enables the board to review timely financial forecasts as well as analyse future opportunities and sensitivities. In addition to this the board receives regular forecasts in relation to the liquidity of the business. The board also receives financial reports that measure performance and trends against budget. The financial models and reports are discussed at board meetings and the Chief Financial Officer answers questions posed by the other directors. Any variations from budget are highlighted, explained and evaluated. This scrutiny is appropriate to a company of the size of Lifestyle Communities Limited. In addition to monthly financial reporting, the Company has in place policies to manage credit and other business risks. Non-executive directors meet at appropriate times with the external auditor in order to fulfil the Audit Committee Charter. This Charter may be viewed on our website.

Operational Reporting

Projects are approved only after extensive review and detailed submissions to the board through the chairman. Outside consultants are engaged as required to enhance the chances of success. Environmental considerations are factors in the consideration of every new project and are fully evaluated and reported before approval by the board.

Insurance

The board recognises the value of insurance as a risk mitigation strategy and works with a leading insurance broker to ensure that appropriate insurance cover is in place at all times. Contracts with contractors are drawn up or reviewed by solicitors prior to the Company entering into any commitment.

Internal Control and Audit

In a small company, an extensive internal control system is not possible, however, there is a natural control as a consequence of being small. The board works very closely with the staff and, because the transactional volume is small, the directors have a detailed knowledge of the working of the Company. It is considered that an internal audit function is therefore not appropriate at this time. The directors believe the system of internal control is appropriate to the size of the Company and to its level of potential risk.

Declaration by the Managing Director and Chief Financial Officer

In accordance with the Australian Securities Exchange (ASX) Corporate Governance Recommendation 7.1, both the Managing Director and Chief Financial Officer sign the following declaration in the presence of the board prior to the board accepting the financial results each year:

In accordance with the Corporations Act 2001 section 295A, I declare that to the best of my knowledge and belief:

- the financial records of the disclosing entity for the financial year have been properly maintained in accordance with section 286
- the financial statements, and the notes for the financial year comply with the accounting standards
- the financial statements and notes for the financial year give a true and fair view
- any other matters that are prescribed by the regulations for the purposes of this declaration in relation to the financial statements and the notes for the financial year are also satisfied

Also in accordance with the ASX Corporate Governance Council Best Practice Recommendations 4.1 and 7.2, to the best of my knowledge and belief, and in my opinion:

- (i) the financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- (ii) the statement in (i) above concerning the integrity of financial statements is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the board; and the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The board has procedures in place to recognise and manage risk. The three executive directors report to the board on matters pertaining to risk.

8. Remunerate Fairly and Responsibly

The Company has established a remuneration and nomination committee.

The board is responsible for determining and reviewing the remuneration of the directors, executive officers and other employees of the Company. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining employees with the skills to manage the Company's operations. The board reviews the remuneration of officers and employees of the Company. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the board may seek the advice of external advisers in connection with the structure of remuneration packages.

The board also reviews the levels and form of remuneration for non-executive directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to non-executive directors shall not exceed the sum fixed by members of the Company in general meeting. Details of the structure of directors' and senior executives' remuneration are set out in the Directors' Report. Details of the remuneration committee are set out in point 2 of these notes.

The board reviews the composition of the board on a regular basis to ensure that the board has the appropriate mix of expertise and experience.

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality board members and executives. Directors and executives are remunerated with reference to market rates for comparable positions. Details of the remuneration of specified directors and executives are contained in the Directors' Report.

Termination payments are not agreed in advance. In the event of a termination, the Company complies with all appropriate legal requirements and Company policy precludes any payment in the event of removal for misconduct.

No formal evaluation of the performance of the board is conducted. The board, being a small active board is in a position to assess its performance on a constant basis. Similarly, key executives are well known to the board and constant contact with them forms a continual performance review.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

	Note	2012 \$	2011 \$
Sale of units		22,835,304	22,697,293
Rental revenue		4,221,669	3,015,852
Deferred management fee		1,804,908	1,405,445
Development fees		1,170,478	136,072
Sub-division revenue		663,805	622,727
Finance revenue		450,658	114,477
Revenue		31,146,822	27,991,866
Cost of sales		(18,001,453)	(17,556,103)
Gross profit		13,145,369	10,435,763
Other income	4	7,622,970	7,940,139
Impairment expenses	15	-	(227,130)
Sub-division expenses		(428,558)	(378,787)
Development expenses		(2,615,615)	(1,833,472)
Village management expenses		(2,287,856)	(1,423,154)
Corporate overheads		(3,407,971)	(3,049,288)
Land expenses		(387,300)	-
Finance costs	5	(2,763,595)	(1,042,363)
Profit before income tax		8,877,444	10,421,708
Income tax expense	6	(2,829,718)	(3,597,250)
Net profit from continuing operations		6,047,726	6,824,458
Profit is attributable to:			
Members of the parent		6,047,726	6,824,458
Total comprehensive income is attributable to:			
Members of the parent		6,047,726	6,824,458
Earnings per share for profit attributable to the ordinary equity holders of the parent			
Earnings per share		cents	cents
Basic earnings per share	22	1.309	1.477
Dilutive earnings per share	22	1.302	1.470

Consolidated Statement of Financial Position
As at 30 June 2012

	Note	2012 \$	2011 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	3,184,621	9,877,428
Trade and other receivables	9	3,077,271	2,530,512
Inventories	10	12,753,880	8,709,520
Land held for sale	13	-	405,387
Other current assets	11	295,932	135,482
Total current assets		19,311,704	21,658,329
Non-current assets			
Trade and other receivables	9	4,106,718	3,251,542
Inventories	10	12,899,842	9,585,280
Property, plant and equipment	12	682,116	701,052
Land held for sale	13	126,619	126,619
Other financial assets	14	2,500,000	2,516,834
Investment properties	15	65,780,516	54,981,748
Total non-current assets		86,095,811	71,163,075
TOTAL ASSETS		105,407,515	92,821,404
LIABILITIES			
Current liabilities			
Trade and other payables	16	4,008,396	9,971,160
Interest-bearing loans and borrowings	18	31,377	2,363,723
Provisions	17	225,700	244,749
Total current liabilities		4,265,473	12,579,632
Non-current liabilities			
Interest-bearing loans and borrowings	18	51,188,065	37,169,781
Provisions	17	182,578	144,983
Deferred tax liabilities	6	9,636,017	6,806,299
Total non-current liabilities		61,006,660	44,121,063
TOTAL LIABILITIES		65,272,133	56,700,695
NET ASSETS		40,135,382	36,120,709
EQUITY			
Contributed equity	19	24,214,692	24,214,692
Reserves	20	799,363	522,051
Retained earnings	20	15,121,327	11,383,966
TOTAL EQUITY		40,135,382	36,120,709

Consolidated Statement of Changes in Equity
For the year ended 30 June 2012

	Contributed equity	Reserves	Retained earnings	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2010	24,214,692	354,524	4,559,508	29,128,724
Profit for the year	-	-	6,824,458	6,824,458
Total comprehensive income for the year	-	-	6,824,458	6,824,458
Transactions with owners in their capacity as owners:				
Employee share options	-	167,527	-	167,527
	-	167,527	-	167,527
Balance as at 30 June 2011	24,214,692	522,051	11,383,966	36,120,709
Profit for the year	-	-	6,047,726	6,047,726
Total comprehensive income for the year	-	-	6,047,726	6,047,726
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(2,310,365)	(2,310,365)
Employee share options	-	277,312	-	277,312
	-	277,312	(2,310,365)	(2,033,053)
Balance as at 30 June 2012	24,214,692	799,363	15,121,327	40,135,382

Consolidated Cash Flow Statement
For the year ended 30 June 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Receipts from customers		31,583,238	29,301,076
Payments to suppliers and employees		(33,756,084)	(27,479,572)
Interest received		341,905	97,643
Interest paid		(5,288,991)	(756,266)
Net cash flows from / (used in) operating activities	21	<u>(7,119,932)</u>	<u>1,162,881</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	12(a)	(96,885)	(105,911)
Payment for long-term deposit		-	(2,500,000)
Purchase of investment properties and capitalised costs		<u>(9,471,278)</u>	<u>(4,789,411)</u>
Net cash flows used in investing activities		<u>(9,568,163)</u>	<u>(7,395,322)</u>
Cash flows from financing activities			
Proceeds from external borrowings		21,405,633	60,532,558
Repayment of external borrowings		(9,834,186)	(43,222,918)
Dividend paid	7	(2,310,365)	-
Payments (net) to related joint venture entities		757,616	(1,317,446)
Payments for capitalised costs of finance		-	(1,341,096)
Repayments of hire purchase		<u>(23,410)</u>	<u>(26,416)</u>
Net cash flows from / (used in) financing activities		<u>9,995,288</u>	<u>14,624,682</u>
Net increase / (decrease) in cash held		<u>(6,692,807)</u>	<u>8,392,241</u>
Cash at the beginning of the financial year		<u>9,877,428</u>	<u>1,485,187</u>
Cash at the end of the financial year	8	<u><u>3,184,621</u></u>	<u><u>9,877,428</u></u>

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lifestyle Communities Limited and controlled entities as a consolidated entity. Lifestyle Communities Limited is a for profit company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue in accordance with a resolution of the directors on 20 August 2012.

Compliance with IFRS

The consolidated financial statements of Lifestyle Communities Limited also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluation to fair value for certain classes of assets as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report required the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is established. They are de-consolidated from the date that control ceases.

(c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and short-term deposits with an original maturity of three months or less held at call with financial institutions.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories include housing units built but not sold as well as capitalised wages and holding costs. With effect from 1st January 2009 sales contract terms were changed and inventories include civil and infrastructure costs. Inventories are classified as either current or non-current assets pursuant to the timing of their anticipated sale.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of units

Revenue from the sale of units is recognised when there is persuasive evidence, usually in the form of settlement of the unit, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally ownership has passed. The consolidated entity considers all risks and rewards as transferred to the customer upon receipt of final settlement.

(ii) Interest revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

(iii) Rental revenue

Rental revenue from investment properties is derived from unit holders and is accounted for on a straight-line basis over the lease term.

(iv) Deferred management fee

The deferred management fee is payable upon a resident selling their property.

For all contracts entered into prior to 1 January 2009, the fee payable is 15% on the resale value of the unit and after a period of occupation of a year and one day.

For all contracts entered into post 1 January 2009, the fee payable is up to 20% (the fee payable accumulates by 4% per year over 5 years up to 20%) upon the resale value of the unit.

The deferred management fee is calculated based on assumptions such as probability of expected stay, using Australian Bureau of Statistics Life Tables. In determining this, the calculation takes account of the age and gender of the occupants. In addition the calculation uses the current house prices and is discounted using an imputed rate of interest that is aligned to the Group's weighted cost of finance. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death.

(v) Development fees

Development fees are received from joint ventures and are recognised when a contractual right to receive the income has occurred.

(vi) Sub-division revenue

Sub-division revenue is recognised upon execution of an unconditional contract of sale of land.

All revenue is stated net of the amount of goods and services tax (GST).

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Property under development is not depreciated. The depreciable amounts of all other fixed assets are depreciated over their estimated useful lives commencing from the time the asset is held ready for use.

Depreciation is calculated on either a straight-line or diminishing value basis over the estimated useful life of the assets as follows:

Buildings	40 years
Plant and equipment	2 to 13 years
Computer equipment	2 to 9 years
Motor vehicles	4-7 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment properties

Investment properties are measured initially at cost, including transaction costs. Investment properties include undeveloped land and land subject to residential site lease agreements. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

(h) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Lease payments for operating leases are recognised as expenses on a straight-line basis over the term of the lease.

(i) Impairment

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(j) Interests in joint ventures

The consolidated entity reports its interests in jointly controlled entities using proportionate consolidation. The consolidated entity's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the results on a line-by-line basis.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(l) Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale, and acceptance fees which are amortised over the life of the facility.

(m) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Defined contribution superannuation plan

The consolidated entity makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the employee services are received.

Share based payments

The consolidated entity operates an equity settled employee option scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments

Classification

The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Non-derivative financial instruments

Non-derivative financial instruments consist of trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transactions costs (if any). After initial recognition, non-derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(o) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) New accounting standards and interpretations

The following standards and interpretations have been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretations is set out below.

(i) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interest in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*. The standard fundamentally changes the way control is defined for the purpose of identifying those entities to be included in the consolidated financial statements. It focuses on the need to have power over the investee, rights or exposure to variable returns and ability to use the power to affect the amount of its returns. Returns must vary and can be positive, negative or both. There is also new guidance on substantive rights versus protective rights and on agent versus principal relationships. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the accounting for consolidation.

AASB 11 does not focus on the legal structure of joint arrangements, but rather on how and what rights and obligations are shared between parties. If the parties share the right to the net assets of the joint arrangement, these parties are parties to a joint venture. A joint venturer can account for an investment in the arrangement using the equity method, and the choice to proportionately consolidate will no longer be permitted.

The assessment of the impact on the Company is yet to be determined. Any changes in accounting policies that are required as a result of the new standard are likely to have an impact on the financial position of the Company. The extent of any impact will be quantified prior to 31 December 2012.

AASB 12 sets new minimum disclosure requirements for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard will affect the type of information disclosed in relation to the consolidated entity's investments as the new standard requires extensive new disclosures regarding the nature of risk associated with the entity's interest in other entities and the effect of those interests on its financial position, financial performance and cash flows.

The consolidated entity does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(ii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 introduces a fair value framework for all fair value measurements in the full suite of accounting standards. This standard explains how to measure fair value and aims to enhance fair value disclosures. The consolidated entity has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

The consolidated entity does not expect to adopt the new standard before the operative date. The standard would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

iii) Other standards

Other standards and interpretations have been issued at the reporting date but are not yet effective. When adopted, these standards and interpretations are unlikely to materially impact on the financial information presented, however the assessment of the impact has not yet been completed.

Notes to the Financial Statements

For the year ended 30 June 2012

NOTE 2: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

The judgements, estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in future periods, are discussed below.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgments

Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(ii) Significant accounting estimates and assumptions

Valuation of investment properties

The Group values investment properties at fair value. Fair value is determined by a combination of the discounted annuity streams associated with the completed home units and the fair value of the undeveloped land. Inputs for the discounted annuity streams associated with the completed home units are derived from independent valuations. The fair value of the land is based on Directors' valuations.

Calculation of deferred management fee (DMF)

The deferred management fee is payable upon a resident selling their property.

For all contracts entered into prior to 1 January 2009, the fee payable is 15% on the resale value of the unit and after a period of occupation of a year and one day.

For all contracts entered into post 1 January 2009, the fee payable is up to 20% (the fee accumulates by 4% per year over 5 years up to 20%) on the resale value of the unit.

The deferred management fee is calculated based on assumptions such as probability of expected stay, using Australian Bureau of Statistics Life Tables. In determining this, the calculation takes account of the age and gender of the occupants. In addition the calculation uses the current house prices and is discounted using an imputed rate of interest that is aligned to the Group's weighted cost of finance. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, with the assumptions detailed in note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Notes to the Financial Statements
For the year ended 30 June 2012

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The Group's principal financial instruments comprise loan notes, bank loans, finance leases, cash and short-term deposits, trade receivables, and trade payables.

The Group manages its exposure to key financial risk, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include market forecasts for interest rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts. These procedures are sufficient to identify when mitigating action might be required.

The Board reviews and agrees policies for managing each of these risks as summarised as follows:

Risk exposure and responses

Deferred management fees are exposed to interest rate risk and market risk, these risks have been assessed individually below assuming no other changes to variables.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to the Group's long-term debt obligations and deferred management fee receivable. The level of debt is disclosed in note 18.

During the prior year the Group executed an agreement for a \$50 million long-term loan note debt facility (refer note 18 for details). This facility is fixed interest therefore reducing the Group's exposure to increases in variable interest rates. The facility has also reduced re-finance risk that generally relates to bank debt.

Long-term debt obligations

As at balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk (being the bank bill business rate):

	2012	2011
	\$	\$
Financial assets		
Cash and cash equivalents	3,184,621	9,877,428
Other financial assets - term deposits	2,500,000	2,516,834
	<u>5,684,621</u>	<u>12,394,262</u>
Financial liabilities		
Secured loans - bank finance	10,517,124	2,333,955
Net exposure	<u>(4,832,503)</u>	<u>10,060,307</u>

Financial liabilities relating to the loan note are classified as non-current and are fixed interest liabilities not exposed to interest rate fluctuations.

As at balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012	2011	2012	2011
	\$	\$	\$	\$
Consolidated				
+1% (100 basis points)	(33,828)	70,422	-	-
-1% (100 basis points)	33,828	(70,422)	-	-

When determining the parameters for a reasonable possible change in interest rate risk, management has taken into consideration the current economic environment at balance sheet date and historical movements.

A proportion of the impact on post tax profit is deferred due to the capitalisation of interest to inventory which is recognised when units are sold.

Notes to the Financial Statements
For the year ended 30 June 2012

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Risk exposure and responses (continued)

Interest rate risk (continued)

Deferred management fee receivable

At balance date, the Group was exposed to Australian variable interest rate risk in relation to the discount rate applied to the deferred management fee receivable.

	2012	2011
	\$	\$
Deferred management fee		
Current	692,400	207,979
Non current	4,106,718	3,251,542
	4,799,118	3,459,521

As at balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012	2011	2012	2011
	\$	\$	\$	\$
+1% (100 basis points)	(33,594)	(24,217)	-	-
-1% (100 basis points)	33,594	24,217	-	-

Market risk

At balance date, the Group was exposed to market risk in relation to the deferred management fee receivable (fluctuation in property prices) and investment properties (fluctuation in capitalisation rates).

Deferred management fee receivable

As at balance date if property prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012	2011	2012	2011
	\$	\$	\$	\$
+10%	335,938	242,166	-	-
-10%	(335,938)	(242,166)	-	-

When determining the parameters for a reasonable possible change in market risk (property price), management has taken into consideration the current economic environment at balance sheet date and historical movements.

There is no impact on equity as any change to the deferred management fee receivable is offset against investment properties.

Investment properties

As at balance date if rental capitalisation rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2012	2011	2012	2011
	\$	\$	\$	\$
+0.25%	(698,183)	(502,930)	(698,183)	(502,930)
-0.25%	740,476	532,327	740,476	532,327

When determining the parameters for a reasonable possible change in market risk (capitalisation rates), management has taken into consideration the current economic environment at balance sheet date and historical movements.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Risk exposure and responses (continued)

Credit risk

There are no significant concentrations of credit risk within the Group.

Credit risk arises from the financial assets for the Group, which comprise cash and cash equivalents, and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

Other receivables relate to development fees due from joint ventures. The Company manages credit risk relating to these fees as they have been appointed development manager for each joint venture project. The Company is confident that the joint ventures will be able to fully repay the development fees that are owing.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that no customers trade on credit terms.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and non-bank loans and finance leases.

The Group's debt as at balance date is outlined at note 18.

The table below represents the undiscounted contractual settlement terms for financial instruments and management expectation for settlement of undiscounted maturities.

The remaining contractual maturities of the Group's financial liabilities are:

	2012	2011
	\$	\$
On demand ⁽¹⁾	-	2,333,955
6 months or less ⁽²⁾	2,375,480	8,040,019
6-12 months	10,834	11,532
1-2 years ⁽³⁾	10,530,205	31,251
8-9 years ⁽⁴⁾	41,849,416	38,461,138
	54,765,935	48,877,895

⁽¹⁾ This amount represents the company's share of the facility held by Cameron Street Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 7 October 2010, amended on 21 April 2011 and was repayable on demand as at 30 June 2011. This facility has been subsequently amended and is now classified as non-current.

⁽²⁾ This amount represents the company's trade and other payables, refer to Note 16 for further detail.

⁽³⁾ This amount is represented by the following financial liabilities:

- \$13,080 relating to non-current hire purchase arrangements,

- \$3,150,571 representing the company's share of the facility held by Cameron Street Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 7 October 2010 and amended on 18 January 2012. The facility expires on 10 November 2013.

- \$560,959 representing the company's share of the facility held by Chelsea Heights Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 17 January 2012. The facility expires on 31 December 2013.

- \$6,805,594 representing the facility held by the company in relation to the Shepparton and Hastings developments. The facility was entered into on 30 November 2011. The facility expires on 31 December 2013.

The Group has met all required covenants since the arrangements commenced and therefore expects that all current arrangements will continue until November and December 2013. It is the Group's intention to seek re-finance of all or part of these facilities prior to them becoming current liabilities.

⁽⁴⁾ On 6 May 2011 the company entered into an agreement with Morstem Pty Ltd for a \$50 million loan note facility. As at 30 June 2011 \$38.5 million of this facility was drawn. During the year the Company drew down a further \$3,388,278 against this facility. The undrawn facility as at 30 June 2012 was \$8,150,584. The facility expires on 19 May 2021, both parties have the option for early redemption at five years (being 19 May 2016). The long-term nature of the facility reduces the Group's re-finance risk.

Notes to the Financial Statements

For the year ended 30 June 2012

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Risk exposure and responses (continued)

Fair value

The fair value of financial assets and liabilities approximates their carrying amounts as disclosed in the consolidated statement of financial position and Notes to the consolidated financial statements.

Financial assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

Deferred management fee receivable

The deferred management fee is calculated based on assumptions such as probability of expected stay, using Australian Bureau of Statistics Life Tables. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death. In determining this, the calculation takes account of the age and gender of the occupants. In addition the calculation uses the current house prices and is discounted using an imputed rate of interest that is aligned to the Group's weighted cost of finance. Due to these assumptions measurement is considered to be level 3 per the measurement hierarchy above.

Reconciliation of level 3 fair value movements (deferred management fee receivable)

	2012	2011
	\$	\$
Opening balance	3,459,521	2,349,052
Impact of changes to house prices	333,639	412,295
Deferred management fees received	(465,311)	(253,465)
Aged growth in existing receivables and new settlements	1,471,269	951,639
Closing balance	4,799,118	3,459,521

NOTE 4: OTHER INCOME

Net gain from fair value adjustments - investment properties (a) (note 15)	7,622,970	7,940,139
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(a) Fair value adjustment results from restating Brookfield, Seasons, Warragul, Cranbourne and Shepparton Villages to their fair value at balance date. This income represents incremental adjustments to the fair value of investment properties upon settlement of units and reflects the discounted value of future rental and deferred management fee revenues net of expenses as well as the fair value of undeveloped land.

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 5: PROFIT FROM CONTINUING OPERATIONS		
Profit from continuing operations before income tax has been determined after the following specific expenses:		
(a) Finance costs		
Loan notes and bank loans	2,723,297	1,015,359
Amortisation of loan facility fees	40,298	27,004
	<u>2,763,595</u>	<u>1,042,363</u>
<i>(i) Capitalised interest</i>		
Profit from operations excludes interest capitalised as part of inventory and investment properties:	<u>3,251,117</u>	<u>1,389,406</u>
Interest has been capitalised at the prevailing variable bank bill rate.		
(b) Depreciation and amortisation		
Depreciation (note 12)	115,821	132,669
Amortisation of capitalised costs of loan note finance	134,477	15,064
	<u>250,298</u>	<u>147,733</u>
(c) Employee benefits expense		
Wages and salaries	2,255,961	2,102,791
Commissions	197,350	244,832
Defined contribution superannuation expense	219,002	199,850
Share option expense	277,312	167,527
Other employee benefits	18,545	35,319
	<u>2,968,170</u>	<u>2,750,319</u>
(d) Impairment losses		
Investment properties (note 15)	<u>-</u>	<u>227,130</u>
NOTE 6: INCOME TAX		
(a) Components of tax expense / (revenue)		
Current tax	-	-
Deferred income tax	2,829,718	3,597,250
	<u>2,829,718</u>	<u>3,597,250</u>
(b) Deferred income tax expense / (revenue) included in income tax expense comprises		
Decrease / (increase) in deferred tax assets	(194,108)	360,377
(Decrease) / increase in deferred tax liabilities	3,023,826	3,236,873
	<u>2,829,718</u>	<u>3,597,250</u>
(c) Reconciliation between tax expense recognised in the income statement and tax expense calculated per the statutory income tax expense		
Accounting profit before tax	8,877,444	10,421,708
At the statutory income tax rate of 30% (2010:30%)	2,663,233	3,126,512
Add / (less):		
Share based payments	83,194	50,258
Adjustments to prior year losses	-	381,039
Joint Venture accounting and tax losses	84,527	35,840
Other	(1,236)	3,601
Income tax expense	<u>2,829,718</u>	<u>3,597,250</u>

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 6: INCOME TAX (continued)		
(d) Current tax		
Current tax relates to the following:		
Opening balance	-	-
Income tax	-	-
Tax payments	-	-
Under / (over) provision in prior years	-	-
Other	-	-
Current tax liabilities / (assets)	-	-
(e) Deferred tax		
Deferred tax relates to the following:		
<i>Deferred tax assets</i>		
The balance comprises:		
Borrowing costs	16,311	3,725
Other	-	55,095
Capital losses	519,439	519,439
Tax losses	1,509,697	1,132,914
Provision for employee entitlements	122,483	116,920
Payables	404,166	549,895
Deferred tax assets	2,572,096	2,377,988
<i>Deferred tax liabilities</i>		
The balance comprises:		
Deferred management fee	1,439,735	1,037,856
Other receivables	131,927	28,967
Finance arranger costs	44,862	4,519
Interest	1,092,511	709,838
Temporary differences on investment property	9,479,884	7,317,845
Temporary differences on inventory	19,194	85,262
Deferred tax liabilities	12,208,113	9,184,287
Net deferred tax liability	(9,636,017)	(6,806,299)
NOTE 7: DIVIDENDS		
(a) Dividends		
Declared and paid during the year	2,310,365	-
(b) Dividends declared after balance date and not recognised		
Since balance date the directors have recommended a dividend at \$0.005 (half cent) per share fully franked at 30%	2,310,865	2,310,365
Balance of franking account on a tax paid basis at balance date adjusted for franking credits arising from tax payments and franking debits arising from the payment of proposed dividends:	3,064,831	4,055,202

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 8: CASH & CASH EQUIVALENTS		
Cash at bank and on hand	3,040,515	2,865,447
Short-term deposits	144,106	7,011,981
	<u>3,184,621</u>	<u>9,877,428</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the group. The deposits earn interest at the respective short term deposit rates.

NOTE 9: TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables	-	3,850
Other related parties	59,599	59,599
Joint ventures	1,264,838	2,022,454
Deferred management fee	692,400	207,979
Other receivables	1,060,434	236,630
	<u>3,077,271</u>	<u>2,530,512</u>

NON-CURRENT

Deferred management fee	<u>4,106,718</u>	<u>3,251,542</u>
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(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

No impairment loss has been recognised

As at balance date, the ageing analysis of trade receivables is as follows:

	Total	0-30	31-60	61-90	> 90
	\$	days	days	days	days
Year ended 30 June 2012	-	-	-	-	-
Year ended 30 June 2011	3,850	1,925	1,925	-	-

No other receivables are past due.

(b) Related party receivables

For terms and conditions of related party receivables, refer to note 23.

(c) Other receivables

Other receivables are non-interest bearing. Other receivables are generally on 30 to 180 day terms.

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 10: INVENTORIES		
CURRENT		
Completed units	7,387,383	6,436,883
Civils & infrastructure	5,366,497	2,272,637
	12,753,880	8,709,520
NON-CURRENT		
Completed units	3,424,608	3,386,685
Civils & infrastructure	9,475,234	6,198,595
	12,899,842	9,585,280
TOTAL INVENTORIES	25,653,722	18,294,800

Prior period inventories have been adjusted to reflect a non-current allocation. The non-current allocation reflects that a proportion of inventory will be realised in greater than 12 months as homes are sold. The adjustment has had no impact on net profit or net assets. An error was made in respect of the prior year as inventory was all classified as current, this classification was incorrect.

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2012 totalled \$18,001,453 for the Group (2011: \$17,556,103). The expense has been included in the cost of sales line item as a cost of sales.

NOTE 11: OTHER CURRENT ASSETS

Security deposits	46,785	19,071
Other assets	146,344	60,314
Prepayments	102,803	56,097
	295,932	135,482

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

Year end 30 June 2012	Buildings	Plant and equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$
At 1 July 2011 net of accumulated depreciation	145,618	350,912	85,378	119,144	701,052
Additions	-	70,349	22,677	3,859	96,885
Depreciation charge for the year	(3,324)	(67,121)	(23,941)	(21,435)	(115,821)
At 30 June 2012 net of accumulated depreciation	142,294	354,140	84,114	101,568	682,116
At 30 June 2012					
Cost	161,121	754,601	263,992	203,708	1,383,422
Accumulated depreciation	(18,827)	(400,461)	(179,878)	(102,140)	(701,306)
Net carrying amount	142,294	354,140	84,114	101,568	682,116

Notes to the Financial Statements
For the year ended 30 June 2012

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period (continued)

Year end 30 June 2011	<i>Buildings</i>	<i>Plant and equipment</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	\$	\$	\$	\$	\$
At 1 July 2010 net of accumulated depreciation	149,312	366,275	108,474	103,749	727,810
Additions	-	60,040	9,761	36,110	105,911
Depreciation charge for the year	(3,694)	(75,403)	(32,857)	(20,715)	(132,669)
At 30 June 2011 net of accumulated depreciation	145,618	350,912	85,378	119,144	701,052
At 30 June 2011					
Cost	161,121	684,565	241,315	199,849	1,286,850
Accumulated depreciation	(15,503)	(333,653)	(155,937)	(80,705)	(585,798)
Net carrying amount	145,618	350,912	85,378	119,144	701,052

(b) Property plant and equipment pledged as security for liabilities

Leased motor vehicles are pledged as security for the related finance lease liabilities.

	2012	2011
	\$	\$
NOTE 13: LAND HELD FOR SALE		
CURRENT		
Land held for sale at cost	-	405,387
NON-CURRENT		
Land held for sale at cost	126,619	126,619

Land held for sale relates to the sub-division of 3.1ha of land at the site in Warragul, to date 6 out of the 7 available lots have been sold. The final lot is unable to be sold until the end of the Warragul community development.

NOTE 14: OTHER FINANCIAL ASSETS

NON-CURRENT		
Term deposits	2,500,000	2,516,834

Term deposit is held as part security for loan facility (refer note 18).

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 15: INVESTMENT PROPERTIES		
Investment properties at fair value	65,780,516	54,981,748
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Opening balance as at 1 July	54,981,748	39,801,828
Additions	3,805,238	7,466,911
Transfers to inventory (i)	(502,540)	-
Disposals (ii)	(126,900)	-
Impairment losses (iii)	-	(227,130)
Net gain from fair value adjustments	7,622,970	7,940,139
Closing balance as at 30 June	65,780,516	54,981,748

Investment properties are carried at fair value, which has been determined by a combination of inputs from independent valuations and Directors' valuations. Fair value is determined by a combination of the discounted annuity streams associated with the completed home units and the fair value of the undeveloped land. Inputs for the discounted annuity streams associated with the completed home units are derived from independent valuations. The fair value of the land is based on Directors' valuations. Inputs from independent valuations are provided by property valuers who are industry specialists in valuing these types of investment properties.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the date of the valuation, in accordance with Australian Accounting Standards. In determining fair value, the expected net cash flows applicable to each property have been discounted to their present value using a market determined, risk-adjusted, discount rate applicable to the respective asset.

All rental income disclosed on the face of the income statement was generated from investment properties. All property management expense relates to investment properties that generated rental income.

Investment properties are subject to a first charge, forming, in part, the security of the Group's loans as disclosed in note 18.

The investment properties are at various stages of development and are subject to further development until fully completed.

(i) The transfer to inventory related to Shepparton development costs transferred upon commencement of the development.

(ii) Water rights associates with the Shepparton land were disposed of during the year.

(iii) As at 30 June 2011 the combined value of the land, capitalised development costs and holding costs of the Shepparton property under development was impaired based on the independent valuation obtained in respect of the year ended 30 June 2010. The valuation represents a fair value of the vacant land prior to development commencing. The impairment has arisen as a result of capitalising holding costs prior to development commencing.

(b) Carrying amount of investment properties if the cost method had been applied	38,232,601	35,056,805
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NOTE 16: TRADE AND OTHER PAYABLES

Trade payables (b)	924,938	501,913
Accrued future project expense	1,643,330	1,942,673
Other payables and accruals (c)	1,440,128	1,564,074
Contracted land (e)	-	5,962,500
	4,008,396	9,971,160

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Trade payables

Trade payables are non-interest bearing and are normally settled on 7 to 60-day terms.

(c) Other payables

Other payables are non-traded payables, are non-interest bearing and have an average term of 30 days.

(d) Interest rate and liquidity risk

Information regarding the interest rate risk and liquidity risk exposure is set out in note 3.

(e) Contracted land

Prior year represented the amount payable by Lifestyle Investments 2 Pty Ltd upon settlement of land contract that settled on 3 December 2011.

Notes to the Financial Statements
For the year ended 30 June 2012

		2012	2011
		\$	\$
NOTE 17: PROVISIONS			
CURRENT			
Provision for annual leave		225,700	244,749
NON-CURRENT			
Provision for long service leave		182,578	144,983
(a) Total employees at balance date		34	32
NOTE 18: INTEREST-BEARING LOANS AND BORROWINGS			
CURRENT	Maturity		
Hire purchase (note 25)		21,249	19,640
Loans from related parties (note 23)	On demand	10,128	10,128
Secured loans - bank finance	Nov 2013	-	2,333,955
		31,377	2,363,723
NON-CURRENT	Maturity		
Hire purchase (note 25)		13,080	34,675
Secured loans - bank finance	Nov, Dec 2013	10,517,124	-
Secured loans - loan notes	May 2021	41,849,416	38,461,138
Capitalised costs of finance		(1,191,555)	(1,326,032)
		51,188,065	37,169,781

For terms and conditions attached to each type of borrowing, refer to section (b)

(a) Fair values

Unless disclosed below, the carrying amount of the Group's current and non-current borrowings approximate their fair value.

(b) Terms and conditions

(i) Current secured loans

This represents the company's share of the facility held by Cameron Street Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 7 October 2010 and amended on 21 April 2011 and was repayable on demand as at 30 June 2011, this facility has been subsequently amended and is now classified as non-current.

(ii) Non-current secured loans - bank finance

This amount is represented by the following financial liabilities:

- \$3,150,571 representing the company's share of the facility held by Cameron Street Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 7 October 2010 and amended on 18 January 2012. The facility expires on 10 November 2013.
- \$560,959 representing the company's share of the facility held by Chelsea Heights Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 17 January 2012. The facility expires on 31 December 2013.
- \$6,805,594 representing the facility held by the company in relation to the Shepparton and Hastings developments. The facility was entered into on 30 November 2011. The facility expires on 31 December 2013.

The Group has met all required covenants since the arrangements commenced and therefore expects that all current arrangements will continue until November and December 2013. It is the Group's intention to seek re-finance of all or part of these facilities prior to them becoming current liabilities.

Notes to the Financial Statements
For the year ended 30 June 2012

NOTE 18: INTEREST-BEARING LOANS AND BORROWINGS (continued)

(b) Terms and conditions (continued)

(iii) Non-current secured loans - bank finance

The \$41.8 million is part of a \$50 million loan note facility with Morstem Pty Ltd, a subscription agreement was entered into on 6 May 2011 and completed on 19 May 2011. The facility term is 10 years and expires on 19 May 2021, both parties have the option for early redemption at 5 years. The Group drew down a further \$3.3 million from this facility during 2012. The Group has met all requirements as per the subscription agreement.

(iv) Loans from related parties

For terms and conditions on loans from related parties refer to note 23.

(c) Assets pledged as security

The facilities with Westpac Banking Corporation are secured by the following:

Fixed and floating charge over all existing and future assets and undertakings of Cameron Street Developments Pty Ltd, Lifestyle Communities Investments Cranbourne Pty Ltd, Lifestyle Developments 2 Pty Ltd, Lifestyle Chelsea Heights Pty Ltd, Lifestyle Investments 2 Pty Ltd and Lifestyle Management 2 Pty Ltd.

Limited guarantee and indemnity provided by Lifestyle Developments 2 Pty Ltd, Lifestyle Management 2 Pty Ltd and Lifestyle Communities Ltd for \$7,597,000.

Mortgage by Lifestyle Communities Investments Cranbourne Pty Ltd over Cranbourne property and Lifestyle Investment 2 Pty Ltd over Chelsea Heights, Shepparton and Hastings properties.

The facility with Morstem Pty Ltd is secured by the following:

Fixed and floating charge over all existing and future assets and undertakings of Lifestyle Investments 1 Pty Ltd, Lifestyle Developments 1 Pty Ltd and Lifestyle Management 1 Pty Ltd.

Mortgage by Lifestyle Investments 1 Pty Ltd over Melton, Warragul and Tarneit properties.

Security deposit represented by term deposit (refer note 14).

(d) Defaults and breaches

During the current or prior year there have been no defaults or breaches of any banking covenants as set out in the various Business Finance Agreement with Westpac; also there have been no breaches of any arrangements as prescribed within the Subscription Agreement between the Group and Morstem executed on 6 May 2011.

NOTE 19: CONTRIBUTED EQUITY

462,173,090 Ordinary shares

2011

Movement in ordinary shares on issue

Balance as at 30 June 2011

2012

Movement in ordinary shares on issue - exercise of options

Balance as at 30 June 2012

	2012	2011
	\$	\$
	24,214,692	24,214,692
Number	\$	
	-	-
	462,073,090	24,214,692
	100,000	-
	462,173,090	24,214,692

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity by assessing the cost of equity (share issue), cost of debt (borrowings) or a combination of both.

Management are constantly reviewing the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to externally imposed capital requirements.

NOTE 20: RETAINED EARNINGS AND RESERVES

(a) Nature and purpose of reserves

(i) Option reserve

The reserve is used to recognise the value of options issued as share based payments.

(b) Movements in retained earnings were as follows:

	2012	2011
	\$	\$
Balance 1 July	11,383,966	4,559,508
Net profit	6,047,726	6,824,458
Dividend paid	(2,310,365)	-
	15,121,327	11,383,966

(c) Reserves

	Option reserve	Total
	\$	\$
2011		
At 1 July 2010	354,524	354,524
Option expense	167,527	167,527
At 30 June 2011	522,051	522,051
2012		
At 1 July 2011	522,051	522,051
Option expense	277,312	277,312
At 30 June 2012	799,363	799,363

The option reserve is used to record the fair value of options issued to employees and directors as part of their remuneration.

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 21: CASH FLOW STATEMENT RECONCILIATION		
a) Reconciliation of net cash flows from operating activities to operating profit		
Operating profit after income tax	6,047,726	6,824,458
<u>Adjustment for non-cash items:</u>		
Depreciation	115,821	132,669
Amortisation	174,775	-
Impairment of investment properties	-	227,130
Share option expense	277,312	167,527
Fair value adjustment	(7,622,970)	(7,940,139)
<u>Add back/(subtract) changes in operating assets and liabilities:</u>		
Increase in trade and other receivables	(2,204,542)	(1,270,471)
Decrease in other current assets	365,089	85,717
Increase in inventories	(6,981,969)	(916,846)
Increase/(decrease) in trade and other payables	(139,437)	220,267
Increase in provisions	18,546	35,319
Increase in deferred tax balances	2,829,718	3,597,250
Net cash flow from operating activities	(7,119,931)	1,162,881

(b) Disclosure of financing facilities

Refer to interest bearing loan and borrowings note 18.

NOTE 22: EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share computations:

(a) Earnings used in calculating earnings per share

For basic and diluted earnings per share:

Net profit	6,047,726	6,824,458
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(b) Weighted average number of shares

Weighted average number of ordinary shares for basic earnings per share	462,173,090	462,073,090
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Effect of dilution:

Share options	2,397,175	2,215,297
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Weighted average number of ordinary shares adjusted for dilution	464,570,265	464,288,387
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There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2012

NOTE 23: RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Lifestyle Communities Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% Equity interest		Carrying value of parent entity's interest	
		2012	2011	2012	2011
				\$	\$
Lifestyle Investments 1 Pty Ltd	Australia	100%	100%	8,751,551	8,751,551
Lifestyle Developments 1 Pty Ltd	Australia	100%	100%	-	-
Lifestyle Management 1 Pty Ltd	Australia	100%	100%	-	-
Lifestyle Seasons Pty Ltd	Australia	100%	100%	3	3
Lifestyle Lynbrook Pty Ltd	Australia	100%	100%	3	3
Brookfield Management Trust (Trustee: Brookfield Village Management Pty Ltd)	Australia	100%	100%	-	-
Brookfield Development Trust (Trustee: Brookfield Village Development Pty Ltd)	Australia	100%	100%	-	-
Lifestyle Communities Investments Cranbourne Pty Ltd	Australia	100%	100%	-	-
Cameron Street Developments Trust (Trustee: Cameron Street Developments Pty Ltd)	Australia	50%	50%	-	-
Lifestyle Investments 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Developments 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Management 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Chelsea Heights Pty Ltd (formerly Lifestyle Bayside Pty Ltd) ⁽ⁱ⁾	Australia	50%	100%	-	-
Lifestyle Chelsea Heights Unit Trust (Trustee: Lifestyle Chelsea Heights Trust Pty Ltd) ⁽ⁱⁱ⁾	Australia	50%	0%	-	-
Lifestyle Warragul Pty Ltd	Australia	100%	100%	120	120
Lifestyle Shepparton Pty Ltd	Australia	100%	100%	120	120
Lifestyle Whirakee Pty Ltd	Australia	100%	100%	3	3
Lifestyle Parks Australia Pty Ltd ⁽ⁱⁱⁱ⁾	Australia	100%	0%	3	-
				8,751,809	8,751,806

⁽ⁱ⁾ Lifestyle Bayside Pty Ltd changed its name to Lifestyle Chelsea Heights Pty Ltd on 26th October 2011.

⁽ⁱⁱ⁾ Lifestyle Chelsea Heights Trust was formed on 22nd December 2011.

⁽ⁱⁱⁱ⁾ Lifestyle Parks Australia was incorporated on 24th November 2011 and currently doesn't trade.

(b) Ultimate parent

Lifestyle Communities Limited is the ultimate Australian parent entity.

(c) Loans from related parties

	<u>Maturity</u>	<u>2012</u>	<u>2011</u>
		\$	\$
CURRENT			
Interest bearing loans and borrowings			
Lifestyle Brookfield Land Trust ⁽¹⁾	On demand	8,835	8,835
Masonkelly Pty Ltd ⁽²⁾	On demand	431	431
B.S. Carter Investments Pty Ltd ⁽³⁾	On demand	431	431
Daken Investments Pty Ltd ⁽⁴⁾	On demand	431	431
		10,128	10,128
Trade and other receivables			
Lifestyle Brookfield Land Trust ⁽¹⁾	On demand	59,577	59,577
Lifestyle Communities Management Pty Ltd		11	11
Lifestyle Investments Pty Ltd		11	11
		59,599	59,599

⁽¹⁾ James Kelly, Bruce Carter and Dael Perlov are the directors of the Trustee company for Lifestyle Brookfield Land Trust

⁽²⁾ James Kelly is the sole director of Mason Kelly Pty Ltd

⁽³⁾ Bruce Carter is the sole director of B.S. Carter Investments Pty Ltd

⁽⁴⁾ Dael Perlov is the sole director of Daken Investments Pty Ltd

NOTE 23: RELATED PARTY DISCLOSURES (continued)

(d) Repayment terms

The current loans from related parties are repayable on demand and have no interest payable. Other receivables are on demand and have no interest payable.

(e) Transactions with related parties

There were no transactions that were entered into with related parties for the current or prior year.

NOTE 24: SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	2012	2011
	\$	\$
Expense arising from equity-settled share-based payment transactions	277,312	167,527

The share-based payment plans are described below. On 24 November 2010 options were issued to directors, executives and other staff under a new ESOP which was approved at the company's AGM on 24 November 2010.

(b) Types of share-based payment plans

Employee Share Option Plan, 'ESOP'

The ESOP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares. When a participant ceases employment prior to the vesting of their share options, the share options are forfeited.

(c) Summaries of options granted under ESOP

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

	2012 No.	2012 WAEP A\$	2011 No.	2011 WAEP A\$
Outstanding at the beginning of the year	23,000,000	0.103	10,250,000	0.151
Granted during the year	-	-	12,750,000	0.065
Exercised during the year	(100,000)	(0.000)	-	-
Lapsed during the year	(6,000,000)	(0.160)	-	-
Outstanding at the end of the year	16,900,000	0.084	23,000,000	0.103
Exercisable at the end of the year	4,150,000	0.142	10,250,000	0.151

The outstanding balance as at 30 June 2012 is represented by:

- 4,000,000 options over ordinary shares with an exercise price of \$0.14 each, Issued on the 14 November 2007, vesting on the 14 November 2009 providing the holder has completed continuous service with the company from the dates of issue. The expiry date is 14 November 2012.

- 150,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable upon completion of a continuous two years of service. Vesting date 7 January 2010, the expiry date is 7 January 2013.

- 12,750,000 options over ordinary shares with an exercise price of \$0.065 each, exercisable upon completion of a continuous two years of service. Vesting date 24 November 2012, the expiry date is 24 November 2015.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 2.7 years (2011: 2.7).

(e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.065 to \$0.200 (2011: \$0.00 to \$0.20).

NOTE 24: SHARE-BASED PAYMENT PLANS (continued)

(f) Weighted average fair value of options granted during the year

There were no option granted during the year.

(g) Option pricing model: ESOP

The fair value of the equity-settled share options granted under the 2011 ESOP is estimated as at the date of grant using a Black-Scholes Model taking into account the terms and conditions upon which the options were granted. All options issued prior to 2011 were estimated using a Binomial Model.

	ESOP FY2011
Dividend yield (%)	0%
Expected volatility (%) (4 year historical monthly)	67%
Risk-free interest rate (%)	5.28%
Expected life of option (years)	2
Option exercise price (\$)	\$0.065
Weighted average share price at measurement date (\$)	\$0.070
Model used	Black-Scholes

	ESOP FY2010
Dividend yield (%)	0%
Expected volatility (%)	70%
Risk-free interest rate (%)	6.35% to 6.67%
Expected life of option (years)	1.57
Option exercise price (\$)	\$0.151
Weighted average share price at measurement date (\$)	\$0.170
Model used	Binomial

The expected volatility was determined by reference to historical volatility of other listed entities within the same industry sector, and the Group's individual historical volatility.

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$

NOTE 25: COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Leasing commitments receivable

Operating lease commitments receivable – Group as lessor

The Group has entered into commercial property leases with its residents in relation to its investment property portfolio, consisting of the Group's land. The residential site leases provide for future lease commitments receivable as disclosed below.

These non-cancellable leases have remaining terms of between 87 and 90 years and are transferable. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at balance date were as follows:

Within one year	4,326,630	3,163,628
After one year but not more than five years	17,306,521	12,654,511
After more than five years	360,501,483	265,046,223
Total minimum lease payments	<u>382,134,635</u>	<u>280,864,362</u>

Minimum lease payments were determined by measuring the current years rentals and measuring this over the standard 90 year lease agreement.

Hire purchase commitments – Group as lessee

The Group has entered into a hire purchase on two motor vehicles with a carrying value of \$48,340. The contract expires within 2 years.

Future minimum lease payments under hire purchase contracts are as follows:

Within one year	23,064	23,064
After one year but not more than five years	13,454	36,520
Total minimum lease payments	36,518	59,584
Less amounts representing finance charges	(2,189)	(5,269)
Present value of minimum lease payments	<u>34,329</u>	<u>54,315</u>

Contracted construction commitments

Payable not later than one year	<u>1,377,993</u>	<u>1,911,719</u>
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Contracted land sale

On 28th June 2012 the Group executed a conditional contract to dispose of 50% of land located at Hastings. The sale price is \$3,513,583 and the contract is expected to settle by the end of September 2012.

(b) Contingencies

Bank guarantees	<u>478,632</u>	<u>394,264</u>
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Bank guarantees are funded by the joint venture entities and are secured by a combination of appropriate term deposits or financier funded.

NOTE 26: SEGMENT INFORMATION

The group has applied revised AASB 8 Operating Segments as of 1 July 2009. Operating segments are now reported based on internal reporting provided to the Managing Director who is the Group's chief operating decision maker.

Segment reporting on the basis required under AASB 8 is consistent with the Group's previous reporting of primary segments.

The consolidated entity operates within one operating segment, being the property development and management industry. As a result disclosures in the consolidated financial statements and notes are representative of this segment.

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 27: KEY MANAGEMENT PERSONNEL		
(a) Compensation of Key Management Personnel		
Short-term employee benefits	942,803	1,029,120
Post-employment benefits	74,997	74,456
Share-based payments	212,063	128,109
	1,229,862	1,231,685

(b) Number of options held by Key Management Personnel

	Balance at 1 July 2011	Granted as remuneration	Options exercised	Net change other	Balance at 30 June 2012	Total vested 30 June 2012	Total exer- cisable 30 June 2012	Total unexercisable 30 June 2012
Directors								
Bruce Carter	3,500,000	-	-	(1,500,000)	2,000,000	-	-	-
Dael Perlov	2,000,000	-	-	-	2,000,000	-	-	-
James Kelly	2,000,000	-	-	-	2,000,000	-	-	-
David Paranthoiene	2,750,000	-	-	(1,500,000)	1,250,000	-	-	-
Tim Poole	5,250,000	-	-	-	5,250,000	4,000,000	4,000,000	-
Key Management Personnel								
Geoff Hollis	1,250,000	-	-	-	1,250,000	-	-	-
	Balance at 1 July 2010	Granted as remuneration	Options exercised	Net change other	Balance at 30 June 2011	Total vested 30 June 2011	Total exer- cisable 30 June 2011	Total unexercisable 30 June 2011
Directors								
Bruce Carter	1,500,000	2,000,000	-	-	3,500,000	1,500,000	1,500,000	-
Dael Perlov	-	2,000,000	-	-	2,000,000	-	-	-
James Kelly	-	2,000,000	-	-	2,000,000	-	-	-
David Paranthoiene	1,500,000	1,250,000	-	-	2,750,000	1,500,000	1,500,000	-
Tim Poole	4,000,000	1,250,000	-	-	5,250,000	4,000,000	4,000,000	-
Key Management Personnel								
Geoff Hollis	-	1,250,000	-	-	1,250,000	-	-	-

A further 3,000,000 options were granted to non directors and executives in FY2011 bringing the total granted for the prior year to 12,750,000.

Terms and conditions for each grant (apply to FY2011 issues):

Grant date- 24 November 2011, Exercise price- \$0.065, Expiry date- 24 November 2015, First exercise date- 24 November 2012, Last exercise date- 24 November 2015

(c) Shareholdings of Key Management Personnel

Shareholding of Key Management Personnel for the year ended 30 June 2012:

Ordinary shares held in Lifestyle Communities Ltd	Balance at 1 July 2011	Granted as remuneration	Exercise of option	Net change other	Balance at 30 June 2012
Directors					
Bruce Carter	106,559,042	-	-	(3,500,000)	103,059,042
Dael Perlov	89,366,652	-	-	-	89,366,652
James Kelly	101,716,417	-	-	-	101,716,417
David Paranthoiene	6,370,646	-	-	2,500,000	8,870,646
Tim Poole	6,845,334	-	-	-	6,845,334
Key Management Personnel					
Geoff Hollis	-	-	-	-	-

Notes to the Financial Statements
For the year ended 30 June 2012

NOTE 27: KEY MANAGEMENT PERSONNEL (continued)

Shareholding of Key Management Personnel for the year ended 30 June 2011:

Ordinary shares held in Lifestyle Communities Ltd	Balance at 1 July 2010	Granted as remuneration	Exercise of option	Net change other	Balance at 30 June 2011
Directors					
Bruce Carter	106,559,042	-	-	-	106,559,042
Dael Perlov	89,366,652	-	-	-	89,366,652
James Kelly	101,716,417	-	-	-	101,716,417
David Paranthoiene	6,370,646	-	-	-	6,370,646
Tim Poole	6,845,334	-	-	-	6,845,334
Key Management Personnel					
Geoff Hollis	-	-	-	-	-

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Loans to Key Management Personnel

Refer to note 23(c) for details regarding loans to Key Management Personnel.

(e) Other transactions and balances with Key Management Personnel and their related parties

There are no other transactions or balances with Key Management Personnel.

NOTE 28: JOINT VENTURES

(a) Interests in joint venture entities

(i) The Group has a 50% interest (2011: 50%) in the joint venture entity, Cameron Street Developments Trust, whose principle activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest.

The joint venture commenced its operations in November 2010.

(ii) The Group has a 50% interest (2011: -%) in the joint venture entity, Chelsea Heights Developments Trust, whose principle activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest.

The joint venture commenced its operations in 22 December 2011.

The Group uses the line by line proportionate consolidation method to recognise its interest in the joint venture entities.

	2012 \$	2011 \$
(i) Aggregate share of joint venture entities results and financial position:		
Current assets	5,500,370	3,584,388
Non-current assets	2,279,422	1,400,075
Total assets	7,779,791	4,984,462
Current liabilities	6,605,150	5,103,666
Non-current liabilities	-	-
Total liabilities	6,605,150	5,103,666
Net assets	1,174,641	(119,204)
Revenues	8,822,039	930,044
Expenses	(7,528,194)	(1,049,248)
Net profit / (loss) from continuing operations	1,293,845	(119,204)
(ii) Aggregate share of joint venture entities capital commitments:		
Contracted development costs	707,537	1,911,719
(iii) Aggregate share of joint venture entities contingent liabilities:		
Bank guarantees	478,632	394,264

Bank guarantees are funded by the joint venture entities and are secured by a combination of appropriate term deposits or financier funded.

Notes to the Financial Statements
For the year ended 30 June 2012

	2012	2011
	\$	\$
NOTE 29: AUDITORS REMUNERATION		
The auditor of Lifestyle Communities Limited is Pitcher Partners.		
<i>Amounts received or due and receivable for current auditors:</i>		
An audit review of the financial report of the entity and any other entity in the consolidated group.	148,900	129,600
Other services in relation to the entity and any other entity in the consolidated group - tax compliance, general tax advice, structuring advice.	32,220	62,230
	<u>181,120</u>	<u>191,830</u>

NOTE 30: PARENT ENTITY DISCLOSURES

Required disclosures relating to Lifestyle Communities Limited as a parent entity:

Current assets	39,946,826	44,418,024
Total assets	<u>51,911,308</u>	<u>56,361,604</u>
Current liabilities	32,729,942	40,289,488
Total liabilities	<u>33,067,820</u>	<u>40,589,771</u>
Net assets	<u>18,843,488</u>	<u>15,771,833</u>
Equity:		
Contributed equity	24,214,692	129,872,951
Reserves:		
Option and share premium reserve	799,363	30,178,521
Capital profits reserve	-	14,899,859
	<u>799,363</u>	<u>45,078,380</u>
Retained earnings / (accumulated losses)	<u>(6,170,567)</u>	<u>(159,179,498)</u>
Total equity	<u>18,843,488</u>	<u>15,771,833</u>
Net profit / (loss)	<u>5,104,712</u>	<u>(2,539,375)</u>
Total comprehensive income	<u>5,104,712</u>	<u>(2,539,375)</u>

NOTE 31: SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

There are no matters or affairs that have arisen since balance date which significantly affect or may significantly affect the operations of the consolidated entity.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 28 to 59 are in accordance with the *Corporations Act 2001* :

- (a) Comply with Accounting Standards in Australia and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- (b) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2012 and its performance for the year ended on that date; and
- (c) As stated in Note 1, the consolidated financial statements also comply with *International Financial Reporting Standards*.

In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and the executive director finance to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2012.

This declaration is made in accordance with a resolution of the Board of Directors.

Handwritten signature of David Paranthoiene.

David Paranthoiene
Chairman

Handwritten signature of James Kelly.

James Kelly
Managing Director

Melbourne, 20 August 2012



**LIFESTYLE COMMUNITIES LIMITED
ABN 11 078 675 153
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LIFESTYLE COMMUNITIES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Lifestyle Communities Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



**LIFESTYLE COMMUNITIES LIMITED
ABN 11 078 675 153
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LIFESTYLE COMMUNITIES LIMITED**

Opinion

In our opinion:

- (a) the financial report of Lifestyle Communities Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 18 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lifestyle Communities Limited and controlled entities for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

S D WHITCHURCH
Partner

20 August 2012

PITCHER PARTNERS
Melbourne

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 17 August 2012.

(a) Distribution of equity securities

(i) Ordinary share capital

462,173,090 fully paid ordinary shares are held by 997 individual shareholders

(ii) Options

16,900,000 options are held by 10 individual option holders.
Options do not carry a right to vote

The number of shareholders, by size of holding, in each class is:

	Fully paid ordinary shares	Options
1 – 1,000	57,160	-
1,001 – 5,000	580,682	-
5,001 – 10,000	978,460	-
10,001 – 100,000	14,052,514	-
100,001 and over	446,504,274	16,900,000
	462,173,090	16,900,000
Holding less than a marketable parcel		263

(b) Substantial Shareholders

Fully Paid		
Ordinary Shareholders	Number	Percentage
Bruce Carter	103,059,042	22.29%
James Kelly	101,716,416	22.01%
Dael Perlov	89,366,652	19.33%
Endeavour Asset Management Pty Ltd	27,892,910	6.04%
	322,035,020	69.67%

(c) Twenty largest holders of quoted equity securities

LIFESTYLE COMMUNITIES LIMITED

Top 20 Holders

Rank	Name	Units	% of Units
1.	DAKEN INVESTMENTS PTY LTD	84,266,652	18.23
2.	MASONKELLY PTY LTD	81,616,416	17.66
3.	B S CARTER INVESTMENTS PTY LTD <THE BS CARTER FAMILY A/C>	78,216,417	16.92
4.	SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA>	27,892,910	6.04
5.	BS CARTER SUPERANNUATION PTY LTD <CARTER SUPER FUND A/C>	21,833,625	4.72
6.	KELLY SUPERANNUATION FUND PTY LTD	20,100,000	4.35
7.	BERWICK VIEW ESTATE PTY LTD <BERWICK VIEW SUPER FUND A/C>	15,100,000	3.27
8.	MAXIMA ETHAN PTY LTD <MAXI FOGELGARN SUPERFUND A/C>	11,600,000	2.51
9.	PARANTHOIENE SUPERANNUATION PTY LTD <PARANTHOIENE SUPER FUND A/C>	8,870,646	1.92
10.	UBS NOMINEES PTY LTD	8,016,955	1.73
11.	MS JANE CAROLINE POOLE	5,595,334	1.21
12.	PERLOV SUPERANNUATION PTY LTD	5,100,000	1.10
13.	MR JULIUS COLMAN + MRS PAMELA COLMAN <COLMAN SUPERFUND A/C>	5,000,000	1.08
14.	MR TERENCE JOHN JASPER + MRS JESSICA ANNE JASPER <JASPER SUPER FUND A/C>	4,682,828	1.01
15.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,652,816	1.01
16.	LEOPARDSTOWN PTY LTD <LEOPARDSTOWN SUPER FUND A/C>	4,494,385	0.97
17.	THIRTY-FIFTH CELEBRATION PTY LTD <JC MCBAIN SUPER FUND A/C>	4,107,834	0.89
18.	EQUITY TRUSTEES LIMITED <SGH MICRO CAP FUND A/C>	3,125,000	0.68
19.	RUBI HOLDINGS PTY LTD <JOHN RUBINO S/F A/C>	3,125,000	0.68
20.	INVIA CUSTODIAN PTY LIMITED <CARTER SUPER FUND A/C>	3,009,000	0.65
Totals: Top 20 holders of ISSUED CAPITAL		400,405,818	86.64

Additional information required by the Australian Stock Exchange Limited not shown elsewhere in this report is as follows. The information is as at 31 July 2012 (as the most practicable date close to the date of this report).

LIFESTYLE COMMUNITIES LIMITED		ISSUED CAPITAL As of 31 Jul 2012	
Range of Units Snapshot		Composition : ORD	
Range	Total Holders	Units	% of Issued Capital
1 - 1,000	135	57,160	0.01
1,001 - 5,000	174	580,682	0.13
5,001 - 10,000	126	978,460	0.21
10,001 - 100,000	430	14,052,514	3.04
100,001 - 9,999,999,999	132	446,504,274	96.61
Rounding			-
Total	997	462,173,090	100.00
Unmarketable parcels			
	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.0890 per unit			
	5,618	321	702,465

Voting Rights

All ordinary shares carry one vote per share without restriction.

Corporate Information

Lifestyle Communities Limited	ABN 11 078 675 153
Registered Office	Level 2, 35 Market Street South Melbourne Vic 3205 Australia
Directors	D. Paranthoiene – Non-executive Chairman J. Kelly – Managing Director B. Carter – Director of Finance D. Perlov – Director of Operations T. Poole – Non-executive Director
Company Secretary	G. Hollis
Principal Place of Business	Level 2, 35 Market Street South Melbourne Vic 3205 Australia
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street, Abbotsford Victoria 3067 Telephone 61 3 9415 5000 Fax 61 3 9473 2500. Investor queries (within Australia) 1300 850 505
Solicitors	Madgwicks Lawyers Level 33, 140 William Street Melbourne VIC 3000 Australia
Bankers	Westpac Banking Corporation Limited 360 Collins Street Melbourne Vic 3000 Australia
Auditors	Pitcher Partners Accountants Auditors & Advisors Level 19, 15 William Street Melbourne VIC 3000 Australia